

RESPONSE TO REQUEST
FOR ADDITIONAL REVIEW

CONTRACTORS
PARKING MANAGEMENT CONTRACT
DETROIT METROPOLITAN WAYNE COUNTY AIRPORT

PREPARED FOR
THE DETROIT METRO AIRPORT REVIEW COMMITTEE
AND THE
SUBCOMMITTEE ON AIRPORT REVIEW OF THE
STANDING COMMITTEE ON COMMERCE

October 10, 2001

The Honorable Glenn D. Steil, Chair
Detroit Metro Airport Review Committee
Michigan Senate
1020 Farnum Building
Lansing, Michigan

The Honorable James L. Koetje, Chair
Subcommittee on Airport Review of the
Standing Committee on Commerce
Michigan House of Representatives
N1093 Anderson House Office Building
Lansing, Michigan

Dear Senator Steil and Representative Koetje:

This special report is in response to the June 6, 2000 letter from the Joint Legislative Select Committee on the Wayne County Detroit Metropolitan Airport requesting a more detailed review of the Detroit Metropolitan Wayne County Airport. This special report contains our responses to questions in the general issue area of contractors related to the Airport's parking management contract.

Specifically, the Joint Legislative Select Committee asked us to determine what specific attributes made APCOA the best suited bidder for the contract. The Joint Legislative Select Committee also asked that we provide a more detailed review and comment on the Airport's 1999 contract award to APCOA, including the conditional approval of the award by the Wayne County Commission, the County Executive's signing of the contract prior to the satisfaction of the conditions approved by the Commission, the subsequent nonsatisfaction of the conditions, rescission of the 1999 contract, and continued involvement of APCOA as the parking management contractor. In addition, the Joint Legislative Select Committee asked that we determine the reasons for the significant decrease in APCOA's management fees resulting from the 1998 bid.

The Joint Legislative Select Committee also asked that we determine whether the Wayne County Commission approved contract extension periods from July 1, 1986 through September 30, 1988 and from June 2, 1992 through November 30, 1998 and comment on the Airport's failure to provide records documenting the Commission's approval.

In addition, the Joint Legislative Select Committee asked that we determine what evidence exists to support the competitive bidding of parking management subcontracts and whether evidence of favor-trading and nepotistic relationships exists.

Finally, the Joint Legislative Select Committee asked that we provide a detailed review and comment on the Airport's efforts to hire a different parking contractor, including but not limited to the Airport's deliberations in bidding and awarding the contract to AMPCO System Parking, and the status of removing APCOA as the parking contractor during pending litigation with the County.

In conjunction with this more detailed review of the Airport's parking management contract, this special report also responds to certain Airport parking related questions contained in the Joint Legislative Select Committee's August 23, 2000 request. Specifically, the Joint Legislative Select Committee asked that we determine, with regard to the underreported parking taxes described by the Wayne County Auditor General, whether APCOA's legal fees incurred in resolving the issue were paid or reimbursed by the Airport. The Joint Legislative Select Committee also asked that we determine whether the Airport's list of APCOA subcontractors (contained in Exhibit J-2 of our special report entitled Preliminary Review of Contractors, Detroit Metropolitan Wayne County Airport) is complete and accurate and that we describe the circumstances surrounding the selection of McQ Leasing as APCOA's subcontractor.

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We are available to present this special report to the Detroit Metro Airport Review Committee and the Subcommittee on Airport Review of the Standing Committee on Commerce upon request. If you have any questions or concerns regarding this review, please contact me.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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OVERVIEW OF THE PARKING MANAGEMENT CONTRACT

On October 15, 1981, the Airport executed a parking management agreement with Air Terminal Services, a wholly-owned subsidiary of APCOA's parent company, Delaware North Companies, Inc., for the period July 1, 1981 to June 30, 1986. On August 4, 1982, a consent of assignment agreement (effective August 6, 1982) was instituted, transferring the contract to another wholly-owned subsidiary of Delaware North Companies, Inc., APCOA, Inc. (APCOA).

APCOA remained the Airport's parking management contractor, through a series of amendatory agreements and extensions, until it was ousted by the Airport on September 9, 2000 because of APCOA's refusal to repay the Airport for cost reimbursement overcharges discovered during a Wayne County Auditor General audit of the Airport parking management contract. APCOA was succeeded by AMPCO System Parking, which is the current Airport parking management contractor.

SCOPE OF REVIEW

Our procedures were of limited scope. Therefore, our review should not be considered an audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

We reviewed documentation associated with the Airport parking management contract and interviewed Airport officials and employees of the parking management contractor.

COMMENTS

Request:

The Office of the Auditor General's Preliminary Review of Contractors, Detroit Metropolitan Wayne County Airport, indicates that the parking management contract was bid in 1998 and subsequently awarded to APCOA. Please determine what specific attributes made APCOA the best suited bidder for the contract. In

addition, please provide a more detailed review and comment on the Airport's 1999 award of the parking management contract to APCOA, the conditional approval of the award by the Wayne County Commission, the County Executive's signing of the contract prior to the satisfaction of the conditions approved by the Commission, the subsequent nonsatisfaction of the conditions, the subsequent rescission of the 1999 contract, and continued involvement of APCOA as the parking management contractor.

Procedure:

We questioned members of the Airport Parking Management Contract Selection Committee regarding the specific attributes that made APCOA their selection as the best contractor for the project, compared to the other four responsive bidders (see Exhibit A).

We examined documentation related to the parking management contract. We interviewed Wayne County officials familiar with the parking management contract.

Comment:

On July 18, 2000, we submitted questions directly to the members of the Airport Parking Management Contract Selection Committee. On July 31, 2000, we received a letter dated July 21, 2000 from the Airport's Director of Administration, on behalf of the members of the selection committee who were Airport employees (see Exhibit B). The Director of Administration stated he provided the response, instead of the selection committee members themselves, because he had proctored the selection interview process.

According to the Director of Administration, the following factors were considered in awarding the parking management contract:

- a. Prime firm background.
- b. Disadvantaged business enterprise (DBE) and local participation.
- c. Understanding of the work.
- d. Management.
- e. Financial ability to perform the agreement.

- f. Competitiveness of the fee.
- g. Intangibles.

The Director of Administration stated that based on the accumulated scores awarded by the selection committee members, the bidder receiving the highest score was determined to be the best contractor for the project.

In response to our request (Exhibit A) to the two non-Airport employee members of the selection committee, both provided separate responses that simply advised that APCOA had received the highest score of the bidders interviewed (see Exhibit C).

The Director of Administration subsequently provided a blank bid evaluation form along with the tabulation of bids which listed APCOA with the highest overall score (see Exhibit D). The Airport did not provide the actual bid evaluation forms completed by the members of the selection committee to support the scores contained in the bid tabulation.

As described by the Director of Airports in an August 25, 1998 memorandum to the Wayne County Deputy Chief Operating Officer (see Exhibit E) and the Wayne County Executive's subsequent October 28, 1998 request for Commission approval (see Exhibit F), the Airport received 5 responsive bids:

- a. Republic - Detroit Parking, Chattanooga, TN
- b. Park Rite - 400 Monroe - Detroit, MI
- c. American International/Miller Parking - Detroit, MI
- d. APCOA-Williford - Detroit, MI
- e. AMPCO System Parking - Richardson, TX

The Wayne County Commission's Committee on Roads, Airports, and Public Services (CRAPS) March 11, 1999 meeting minutes described the comments of Wayne County Commission Counsel, who indicated that although the bid process appeared to be followed, no bid evaluation forms or analyses of the various proposals were forwarded

to the Commission to support the Airport's assertion that APCOA was the lowest bid. Commission Counsel recommended that these documents be inspected to ensure that the process followed was indeed fair.

There is no evidence that Commission Counsel was ever provided the bid evaluation forms, and the Airport has not produced these documents upon our request.

To determine the events that led up to the Commission's conditional award of the parking management contract, as well as the events that transpired subsequent to the Commission's April 1, 1999 conditional resolution, we requested minutes of meetings held by the Commission and its various committees.

The Wayne County Commission Clerk provided minutes from CRAPS, the Committee of the Whole, the Committee on Ways and Means, the Committee on Audit, and the Journal of the Commission, which documented deliberations regarding the APCOA parking management contract.

CRAPS reviews the Airport's recommendations and forwards a recommendation to the Committee of the Whole. The Committee of the Whole reviews CRAPS recommendations and forwards the recommendations to the full Commission for approval or rejection. Both the Committee on Ways and Means and the Committee on Audit are subsidiary committees which provide information to other committees, such as CRAPS.

The written minutes and other information we examined chronicle the events that occurred regarding the APCOA parking management contract, leading to Wayne County Commission Resolution No. 99-185 (Exhibit G), the conditional award of the parking management contract to APCOA:

- | | |
|------------------|--|
| August 25, 1998 | The Director of Airports writes to Wayne County's Deputy Chief Operating Officer requesting approval of the award of the parking management contract to APCOA for the effective period December 1, 1998 through November 30, 2001 (Exhibit E). |
| October 28, 1998 | The Deputy Chief Operating Officer and the Wayne County Executive approve the Airport's recommendation that the parking management contract be awarded to APCOA and submit the recommendation to the Commission (Exhibit F). |

December 9, 1998	The Wayne County Auditor General reports that APCOA has underreported \$1.4 million in parking taxes, charged the Airport up to \$400,000 in excessive vehicle lease reimbursements involving subcontractor McQ Leasing, and failed to competitively bid several other subcontracts, including subcontracts awarded to parties related to County officials.
December 15, 1998	The Committee on Audit votes to forward to CRAPS "for information only" the Wayne County Auditor General's report on APCOA.
January 21, 1999	CRAPS minutes indicate that the Director of Airports submitted responses to the Wayne County Auditor General's report and that CRAPS reviewed the responses.
February 5, 1999	In a communication dated February 5, 1999 (received by the Commission on March 9, 1999), the Deputy Chief Operating Officer and the County Executive again request that the Commission approve a three-year parking management contract with APCOA-Williford Parking "as the best proponent for the project" (see Exhibit H).
February 10, 1999	Minutes from the Committee on Audit include the Airport's responses to the Wayne County Auditor General's report (see Exhibit I). According to the minutes, the Airport's Corporation Counsel stated: <div style="padding-left: 40px;">. . . APCOA is told how to operate, they do not do anything without the Airport Management's approval or disapproval. There is a written contract and [the Airport's Corporation Counsel] felt that APCOA followed all of the conditions of the contract.</div>
March 11, 1999	CRAPS considers the County Executive's February 5, 1999 request that the Commission approve the three-year parking management contract with APCOA. In support of the County Executive's request that APCOA be awarded the contract, the

Director of Airports states during the meeting that many of the mistakes identified in the Wayne County Auditor General's report were made by Airport management, not APCOA, and to punish APCOA for Airport management's decisions would be unfair. The meeting minutes do not indicate whether the Director of Airports identified which members or areas of Airport management were responsible for these mistakes.

The meeting's agenda items include a draft Commission resolution, dated March 18, 1999, authorizing a three-year contract with APCOA, without conditions (see Exhibit J). However, the minutes indicate that a majority of the CRAPS members were not comfortable with recommending approval of the contract until further questions were answered. Therefore, CRAPS forwarded the contract to the Committee of the Whole without recommendation.

March 16, 1999

The agenda of the Committee of the Whole includes the CRAPS report, forwarding without recommendation the County Executive's request that the Commission approve the APCOA parking management contract. The meeting minutes indicate that the Committee of the Whole discussed the APCOA contract with the Wayne County Prosecutor, the Wayne County Auditor General, and the Director of Airports. The details of these discussions are not contained in the meeting minutes. The Auditor General is requested by the Chairman of the Wayne County Commission to prepare an informational package on the matter for Commissioners' review.

March 30, 1999

The Committee of the Whole votes to approve and forward to the full Commission the APCOA parking management contract. Of the 15 Commissioners, 4 vote "no" and 3 are not present during the vote. After some discussion with Commission Counsel, the details of which were not disclosed in the meeting minutes, the Committee requests that Commission Counsel request a letter of understanding from the Director of Airports prior to the Commission meeting. The letter of understanding and related correspondence are contained in Exhibit K.

March 30, 1999 The Commission considers the Committee of the Whole's recommendation that the Commission approve the APCOA parking management contract. After discussion by the Commissioners with Commission Counsel, the Director of Airports, and Airport Corporation Counsel, the Commission adopts Wayne County Resolution No. 99-185 (Exhibit G), conditionally approving APCOA's contract with proposed language revisions. The Commission resolution stipulates that if prior settlement of a claim estimated between \$380,000 and \$500,000 is not reached with APCOA within 30 days, the Commission's delegation of contracting authority under the resolution will lapse.

March 31, 1999 In a letter to the Wayne County Auditor General, the Wayne County Prosecutor concludes:

[W]e did not find reason to suspect that the mistakes made locally on these leases reflect a culpability which should disqualify [APCOA] in the current bidding.

However, the Prosecutor did find that APCOA was obligated to refund excessive vehicle lease reimbursements to the County and recommended that the County require APCOA to settle this refund claim as a condition of the new contract award.

April 5, 1999 The County Executive signs a three-year written parking management services agreement with APCOA-Williford Parking (Williford being Williford Enterprises, L.L.C., APCOA's 20% minority joint venture partner for Airport parking since January 1, 1996). Although the issue is currently being litigated, the Commission Chairman has contended that on April 5, 1999, there having been no settlement discussions, no proposed settlement, and no Commission action to approve a settlement, the County Executive had no authority to execute a contract and, thus, the contract of April 5, 1999 was void.

May 4, 1999 The Committee on Ways and Means approves and forwards to the Commission a resolution to extend the contingency stated in Wayne County Commission Resolution No. 99-185 for an additional 30 days.

May 6, 1999 The Commission subsequently approves the resolution to extend the contingency another 30 days, following discussion with Commission Counsel.

May 20, 1999 The Commission Chairman reports that, upon further investigation, the Prosecutor determined that the County's claims against APCOA under the contract have doubled, and APCOA potentially owes the County \$1 million for excessive and unreasonable cost reimbursements. The Chairman also stated that as a result of the further investigation, the Prosecutor had reached an impasse in its negotiations with APCOA and would have to litigate against APCOA to recover the excessive cost reimbursements. The Chairman suggests that APCOA's failure to contain its costs and be responsible for the losses dictates that the Commission should vote to terminate the existing contract with APCOA. The Chairman recommends that the Commission vote down the current bid recommendation to APCOA, rebid the contract, and not consider APCOA in the rebid unless it settles its debt to the County.

 After extensive discussion with Commission Counsel, the Deputy Chief Operating Officer, and Airport Corporation Counsel, the Commission votes against extending the conditional approval of the APCOA parking management contract contained in Wayne County Commission Resolution No. 99-185. The meeting minutes did not detail the extensive discussions that took place.

May 21, 1999 The Commission Chairman communicates to the County Executive that the Commission rejected the County Executive's February 5, 1999 request and voted not to continue to extend APCOA's parking management contract (see Exhibit L). The

Chairman suggests four options to the County Executive: (1) rebid the contract; (2) award the contract to the next highest ranking bidder; (3) submit another month-to-month contract requesting authorization from the Commission, or (4) explore the possibilities of bringing the services in-house.

June 15, 1999

The Commission Chairman provides the Committee of the Whole an update on the status of the APCOA parking management contract, followed by a lengthy discussion that was not detailed in the meeting minutes. Following this extensive discussion, the Chairman indicates he will consider calling a special Commission meeting to consider the matter of APCOA.

June 16, 1999

The Wayne County Prosecutor, in response to a referral from the Wayne County Auditor General, reviewed the APCOA matter "under the applicable ethics statutes and ordinances." The Prosecutor reports to the Commission Chairman that APCOA officials made three inadequate settlement offers of \$100,000, \$200,000, and \$450,000. However, by that time, the Prosecutor had uncovered an additional \$500,000 in excessive van lease reimbursements under the contract, for a total of over \$1 million in excessive charges owed to the County by APCOA.

The Prosecutor details the arrangement between APCOA and vehicle leasing company, McQ Leasing, that led to the overcharges. The Prosecutor describes these vehicle lease arrangements as paramount to "paying for a whole condominium, but only getting a time-share." The Prosecutor also reports that APCOA representatives stated that APCOA was told to use McQ Leasing by County officials. However, the Prosecutor questions this, stating:

That answer does not appear believable, since APCOA knew or should have known that no individual County employee can vary the terms of the written Management Contract which had been formally adopted by the County Commission.

The Prosecutor concludes:

[T]he County has substantial claims against APCOA for refunds for the excessive reimbursements on the vehicle leases, and absent a reasonable settlement, appropriate proceedings should be initiated for their recovery.

June 24, 1999

The Director of Airports reports to CRAPS that the parking management contract was out for rebid and that, to prevent Airport parking chaos, APCOA would continue to operate as the parking manager until a new contract was awarded. In addition, the Commission adopts Wayne County Commission Resolution No. 99-363 (see Exhibit M), which resolves:

[I]t would be in the best interests of efficient, effective and accountable government for the Prosecuting Attorney to initiate a civil action against those persons and firms which have been involved in the vehicle rental operations of the parking lot management operations at Detroit Metropolitan Wayne County Airport since 1991.

July 2, 1999

The Director of Airports notifies APCOA that the County is canceling its parking management contract.

July 2, 1999

APCOA's attorney writes the County demanding that it perform its existing parking management contract dated April 5, 1999 and withdraw cancellation of APCOA's contract. This dispute is currently under litigation. However, the contract was rebid, and APCOA was eventually removed as the parking management contractor on September 9, 2000.

An April 26, 2000 letter sent to the Commission Chairman from the County Executive and the Director of Purchasing (see Exhibit N) states that in response to 36 direct solicitations, the Airport received four responses with bids. After review of the proposals, AMPCO System Parking, Los Angeles, CA, was selected as the most qualified bidder. Upon Commission approval, AMPCO System Parking, succeeded APCOA as the parking management contractor for the Airport.

Request:

The preliminary review report also indicates that APCOA's management fee decreased significantly as a result of the 1998 bid. Please determine the reasons for this change.

Procedure:

We interviewed Airport personnel and parking contractor personnel regarding the significant decrease in APCOA's 1998 management fee bid.

Comment:

An analysis of the most recent Airport-provided financial records for 1999, 1998, and 1997 show that the Airport received \$32,222,719, \$30,216,933, and \$28,391,357, respectively, in parking revenue and reimbursed APCOA \$14,239,008, \$12,455,646, and \$11,606,245, respectively, in parking expenses. Based on APCOA's previous management fee percentage (.7584% of parking revenue), APCOA earned approximately \$244,377, \$229,165, and \$215,320, respectively, in management fees during the period.

However, under the Airport's cost reimbursement procedures, APCOA submitted its monthly expenses for reimbursement at the end of the month and received Airport reimbursement approximately another month later. Considering APCOA's working capital investment required to operate the parking management contract while waiting for reimbursement of expenses, the length of time needed for reimbursement, and the management fee paid, we estimate that APCOA's return on investment was only 1.80% under the previous contract.

Even under the more generous management fee percentage of the previous contract (.7584% of parking revenue), APCOA's management fee would not have been sufficient to offset the opportunity cost of APCOA's working capital requirements. Based on an historical review of Airport-provided financial records, APCOA's 1998 management fee bid amount (.23297% of parking revenue) would have been negated by its cost of working capital, unless supplemented by other sources.

Considering the low management fee bid, it is inconceivable that a company could view acceptance of this contract as a profitable business decision unless there were other foreseeable incentives to derive profit. Further, it is uncertain whether the Airport comprehended this condition when it awarded the contract to APCOA.

For example, in his March 31, 1999 letter to the Commission Chairman, the Director of Airports, who supported awarding the parking management contract to APCOA, noted:

APCOA had the lowest management fee of all [bidders]. Its management fee was 0.23297%. Other companies' proposals ranged from 0.61% to 0.97926% of gross revenues. The APCOA bid was at least one-half to one-third of the other bids submitted.

We made inquiries of the following Airport employees who had responsibilities relating to the parking management contract regarding the reasons for the significant decrease in APCOA's management fee bid:

- a. Airport's Parking Management Project Consultant.
- b. Airport's Deputy Director of Airport Operations and Public Safety.
- c. Airport's Director of Administration.

None of these individuals could provide an explanation for the significant decrease in APCOA's management fee bid.

Similarly, we attempted to contact the following APCOA representatives regarding the significant decrease in APCOA's management fee bid:

- a. APCOA's Assistant Parking Manager.
- b. APCOA's Senior Vice President.
- c. APCOA's Corporate Chief Financial Officer.
- d. APCOA's General Counsel.
- e. APCOA's joint venture partner.
- f. APCOA's former Parking Manager.

We successfully contacted APCOA's Assistant Parking Manager, who has continued as AMPCO System Parking's Assistant Parking Manager, but she could not provide an

explanation for the decrease in APCOA's management fee bid. Our attempts at contacting APCOA's Senior Vice President were unsuccessful, as he was no longer employed by APCOA and could not be located. APCOA's Corporate Chief Financial Officer and General Counsel did not respond to our inquiries.

We successfully contacted APCOA's joint venture partner, who stated that he did not know why the management fee bid decreased.

APCOA's former Parking Manager, on the advice of legal counsel, declined to be interviewed in the absence of appropriate legal process (i.e., subpoena) compelling his testimony.

Although refusing to voluntarily respond to this inquiry, APCOA's former Parking Manager testified regarding APCOA's Airport parking management contract in a November 6, 2001 sworn deposition involving the APCOA - Wayne County litigation. APCOA's former Parking Manager did not directly indicate in his testimony why APCOA's management fee decreased significantly as a result of its 1998 bid, but he did testify that APCOA had overbilled the Airport by:

- a. Charging for administering 401(K) plans for APCOA employees who were not participating in the plan.
- b. Inappropriately marking up insurance costs.
- c. Charging the Airport for APCOA's former Parking Manager's full salary, while he performed work "more than half" of the time for other APCOA parking operations in several cities throughout Michigan, as well as Ohio, Wisconsin, Minnesota, North Dakota, and the Canadian provinces of Quebec and Ontario.

Compelled testimony from APCOA's former Parking Manager or other APCOA representatives may be necessary to determine if such alleged overbillings provided APCOA with the financial flexibility to significantly decrease its management fee bid or what other factors explain APCOA's management fee bid.

The significant decrease in APCOA's 1998 management fee bid is an enigma because APCOA's 1998 bid accepted a contract with a provision that continued to make APCOA responsible for paying the Michigan single business tax (SBT).

Under the original Airport parking management contract with APCOA (see Exhibit O), the Airport was responsible for reimbursing APCOA's direct operating expenses and charges, except for SBT. Similarly, the 1989 amendatory agreement extending the original parking management contract between the Airport and APCOA continued to require the Airport to reimburse APCOA for direct operating expenses and charges, except for SBT.

This was acceptable to APCOA because, in 1988, the Michigan Tax Tribunal had previously ruled that APCOA's Airport parking management predecessor, Systems Parking, Inc., was not liable for SBT on the cost reimbursements paid by the Airport for the taxable period from April 1, 1978 through March 31, 1982. Systems Parking, Inc., was liable for SBT on only its management fee.

Subsequently, in 1993, the Michigan Tax Tribunal reached the opposite conclusion (upheld on appeal by the Michigan Court of Appeals), ruling that APCOA was responsible for SBT not only on its management fee, but also on all expense reimbursements received from the Airport. Under APCOA's contract with the Airport, APCOA was precluded from seeking SBT reimbursement from the Airport.

After the Michigan Tax Tribunal's ruling, APCOA wrote the Airport's Corporation Counsel on March 3, 1997 "to summarize, follow-up, and confirm our January 22nd and February 10th conversations" (see Exhibit P), seeking the following:

- a. Reimbursement of \$432,082 for SBT payments made by APCOA.
- b. Reimbursement of \$216,301 for interest on taxes related to item a.
- c. Reimbursement of \$88,110 for legal fees related to litigating the SBT matter.
- d. Future reimbursement for the County's pro rata share of tax payments.
- e. Future reimbursement of "any additional amounts" of SBT owed "[i]n the event that the state audits any of the Single Business Tax returns filed . . . and adjustments are made"

According to APCOA's counter-complaint contained in its suit against the County, as a result of the Michigan Court of Appeals decision, APCOA was required to pay \$1,034,459 in SBT as of November 30, 1999. Also, APCOA alleged:

In accordance with its promises, representations and agreements, the County prepared and signed a check for the purpose of fully reimbursing APCOA for all SBTs, interest and attorney fees resulting from the Michigan Court of Appeals' decision. Notwithstanding the County's representations, promises and agreements to fully reimburse APCOA for the categories and amounts delineated above, the County has wrongfully failed to deliver the check, and has wrongfully withheld payment.

In a February 17, 1998 letter to the County Executive, a County Commissioner wrote:

I write to you concerning the almost one million dollars due APCOA for reimbursement of their payment of the Michigan Single Business Tax pursuant to a court order.

As a vendor with good relationships with the county, APCOA has gently been trying to be reimbursed for their payment of the Single Business Tax for over a year. The county has admitted it's (sic) responsibility for reimbursement to APCOA. Could you kindly see that this matter is resolved and APCOA is paid.

APCOA's counter-complaint against the County alleges:

[The Airport's Corporation Counsel], as well as other agents and representatives of the County, orally re-confirmed to APCOA the County's agreement and intention to reimburse APCOA for the SBT and interest levied upon reimbursements for operating expenses should the State of Michigan's position somehow be upheld.

APCOA's counter-complaint further alleges:

[The Airport's Corporation Counsel], as an agent and representative of the County, testified that the County would reimburse APCOA for SBT if APCOA had to pay it on the grounds that if the tax were great enough, then APCOA would wind up without any management fee, which was not the intent of the Contract, the Amended Contract or the Amended Month-to-Month Contract.

APCOA's counter-complaint cites the Michigan Tax Tribunal transcript of the testimony of Airport's Corporation Counsel. The transcript shows that the Airport's Corporation Counsel had testified as follows:

Question: Considering your understanding of the intent of the contract, and its operation, in your opinion what obligation would the county have, if any, to reimburse APCOA for those taxes should the Tribunal determine in reference to the single business tax that it appropriately applies to the payroll reimbursements from the county to APCOA?

Answer: [B]asically, we would probably reimburse APCOA for that tax if they had to pay it. I think the rationale would be if the tax were great enough they'd wind up - they would wind up without any management fee, and that was not the intent of the contract.

If APCOA's only compensation for the Airport parking management contract was its management fee, it is not clear why APCOA, in its 1998 bid, would have reduced its management fee by 70%, while accepting a contract (see Exhibit Q) that continued to require APCOA to pay an SBT that may leave it without any management fee.

Request:

The preliminary review report indicates that the Airport failed to provide documentation indicating that the Commission approved the contract extension periods from July 1, 1986 to September 30, 1988 and from June 2, 1992 to November 30, 1998. Please determine whether the Commission did indeed approve the contract extensions, and comment upon the Airport's failure to provide these records.

Procedure:

We reviewed pertinent parking contract documents and interviewed the Wayne County Commission Counsel regarding the parking contract extensions.

Comment:

The Wayne County Auditor General's December 9, 1998 financial-related audit of the Airport parking operations reported:

Since the expiration of the contract in 1991, the Operator has continued to operate under extension of the expired contract on a month-to-month basis.

In our interview with the Wayne County Commission Counsel, he informed us of the following:

- a. The Commission had been notified that APCOA's contract was "month-to-month" beginning July 1, 1986.
- b. From July 1, 1986 to October 1, 1988, the Commission had forgotten about the month-to-month contract until it was presented with a request to approve a three-year agreement, which was executed on October 1, 1988.
- c. When the October 1, 1988 agreement expired on October 1, 1991, the Commission approved an amendment for a month-to-month extension of the contract from October 1, 1991 through June 1, 1992 while the contract was being rebid. However, the contract was never rebid, and the Commission again simply forgot about the contract.
- d. The County does not have a contract tracking system that would alert the Commission of expired contracts.

Based on our review, the Airport had no Commission authorization to extend the parking management contract during the contract extension periods of July 1, 1986 through September 30, 1988 and June 2, 1992 through November 30, 1998. Thus, the Airport could not provide records of contract extension authorization for these periods because no such authorization existed.

Request:

It has been alleged that APCOA hired relatives of certain Airport and County officials, some on a noncompetitive basis, as subcontractors and/or agents of APCOA. In addition, it has been suggested that a large number of APCOA's subcontracts were not competitively bid as required by the County's 1998 policy

on the hiring of subcontractors. For example, it appears that Jack Feys, Mr. McNamara's brother-in-law, owns Gatex, Inc.; Contractor Associates, Inc.; and Western Towing, Inc., all three of which are subcontractors to APCOA. Reportedly, Mr. Feys' companies submitted bids to APCOA, but their subcontracting agreements were never reduced to writing. Similar allegations have been made in a civil complaint filed by Ricardo Solomon, Chairman of the Wayne County Commission, against APCOA. In light of these allegations, please determine what evidence exists to support the competitive bidding of parking management subcontracts.

Procedure:

We examined bid documentation for subcontractors to the Airport's parking management contract.

Comment:

As described on page 49 of our preliminary review report:

- (1) The Airport stated that, in May 1999, it began reviewing and assisting in the parking contractor's preparation and issuance of bids and proposals soliciting Airport work to prospective parking subcontractors in excess of \$5,000. Prior to May 1999, the Airport did not actively monitor the parking contractor's selection of subcontractors. The Airport informed us that it did not possess evidence pertaining to competitive bidding of parking subcontracts prior to this time.
- (2) The Airport stated that, in May 1999, it began actively examining the appropriateness of expenditures, contract compliance, and mathematical computation of subcontractor invoices submitted for the parking contractor's cost reimbursement. Prior to May 1999, the Airport did not actively monitor the details of the parking contractor's submission of subcontractor invoices for cost reimbursement.

In response to the Joint Legislative Select Committee's June 6, 2000 request that we determine what evidence exists to support the competitive bidding of parking management subcontracts, we requested that the Airport produce all such documentation. Upon review of the bid documents submitted, we determined that the Airport's response was incomplete, prompting a second request to the Director of Airports that we be provided access to any and all remaining bid documents for parking management subcontracts.

Airport personnel subsequently provided some additional bid documents, and we met with the Director of Airports regarding the incompleteness of bid documents received. The Airport stated that this was the only documentation in its possession and gave no assurances regarding the completeness of the bid documentation.

The bid documents substantiate competitive bidding of some of the current parking management subcontracts. However, we noted gaps in the completeness of the bid documents:

- a. The documents did not include bid documentation for many parking management subcontracts.
- b. The bid documents were inconsistent and incomplete. In some cases, the documents contained the actual bids and tabulation of bids for the subcontracted service and, in other cases, the documents contained only the tabulation of bids without the actual bids for support. In some instances, only a letter of recommendation from APCOA was provided as bid documentation, without any bids or tabulation of bids for support.

We also reviewed the Wayne County Auditor General's working papers from the 1998 audit of the Airport's parking operations. The Wayne County Auditor General's working papers disclosed that APCOA's Senior Vice President stated that after APCOA's former Parking Manager left on May 1, 1997, bid documentation for the previous 12 years was missing. APCOA's Senior Vice President also stated that there were bids taken for subcontractor work, but it was impossible to tell for which contracts. The Wayne County Auditor General's working papers documented that APCOA did not have records to substantiate bids for subcontracted work.

Request:

In addition, specific allegations suggest that APCOA cultivated personal favor-trading and nepotistic relationships with Airport middle-management, with the result that an arm's-length business relationship was destroyed. Please determine whether evidence of this favor-trading exists.

Procedure:

We examined related court records chronicling allegations of favor-trading and nepotism. We interviewed individuals familiar with the allegations and examined documentation of possible related party dealings.

Comment:

The Chairman of the Wayne County Commission, as Third-Party Defendant and Counter-Complainant to the County's litigation with APCOA, alleged in part in his counter-complaint that based upon information and belief, APCOA managers cultivated personal favor-trading relationships with Airport mid-level managers and hired relatives of these Airport managers and other high County officials to work for APCOA.

Our review procedures disclosed the following:

- a. One Airport middle-management employee, who was responsible for overseeing the Airport parking management contract, confirmed that he had a daughter, a nephew, and a step-brother employed by APCOA. The employee denied any knowledge of favor-trading or nepotism involving the parking management contract or any knowledge of any other County employees with relatives employed by APCOA.
- b. The APCOA employee who was the step-brother of the Airport employee responsible for overseeing the parking management contract had a sister who subcontracted with APCOA for consulting work under the firm name Ashker Consulting Group.
- c. APCOA subcontractors Gatex, Inc.; Contractor Associates, Inc.; and Western Towing, Inc., are all owned by the brother-in-law of the Wayne County Executive. In addition, evidence exists that the brother-in-law/owner of these three businesses had two sons who were employed by APCOA. The two sons have also been employed by subcontractor Gatex, Inc.
- d. Evidence exists that the two sons mentioned in item c. both had spouses who were employed by current parking manager AMPCO System Parking as of September 22, 2000.
- e. Approximately one year after leaving County employment, a former Airport employee was hired by current parking manager AMPCO System Parking as an Assistant Manager.
- f. A daughter-in-law of the Wayne County Executive was employed by APCOA as a customer service representative.

- g. A daughter of the County's Deputy Chief Operating Officer (formerly titled Assistant CEO/Airport and Major County Construction) was employed by APCOA.
- h. APCOA's joint venture partner, Williford Enterprises, L.L.C., is owned by a former County employee. According to the joint venture agreement, the County employee entered the joint venture agreement with APCOA effective January 1, 1996, while still a County employee. According to Wayne County records, the owner of Williford Enterprises retired from County employment effective May 1, 1996, which was four months after becoming a joint venture partner with APCOA.

In addition, a relevant provision of the joint venture agreement between APCOA and joint venture partner Williford Enterprises was that the joint venture would terminate immediately if the County terminated the month-to-month extension of the Airport parking management agreement, even if a new Airport parking management contract was awarded to APCOA.

- i. The owner of APCOA's previous joint venture partner for Airport parking, Archie Clark Associates (ACA), is currently a County employee. Records show that prior to becoming a County employee, ACA's owner entered a joint venture agreement with APCOA, effective March 29, 1990. On September 21, 1995, upon advising APCOA of his intention to accept County employment, ACA's owner was sent a notice by APCOA of APCOA's intent to terminate the Airport parking joint venture agreement with ACA. APCOA stated, in part:

You recently advised APCOA, Inc. of your intention to accept [a] position . . . with the County of Wayne. We are now advised that you have, in fact, taken this new position.

As we discussed, your new position with the County creates unacceptable conflicts with your duties and responsibilities to our joint venture - APCOA-CLARK PARKING. By virtue of the County's Ethics Ordinance, you are actually precluded from actively participating in the Joint Venture.

Since active minority participation on an active scale is a requirement of our Management Contract with the County, your inability to actively discharge your duties to the Joint Venture requires the termination of the Joint Venture.

Although ACA's owner terminated his involvement in APCOA's Wayne County parking operation at the Airport, he has continued his involvement with APCOA

through three City of Detroit (non-Wayne County) operations, while still a County employee. Under the County's Ethics Ordinance, as a County employee, he was required to disclose by March 15 of each calendar year any ownership or involvement with APCOA that resulted in more than \$500 per year or ownership of 5% or more in any property or business with APCOA.

ACA's owner did disclose his continued involvement with APCOA in his Annual Disclosure of Potential Conflicts of Interest for 1996, 1997, and 1998. However, in his Annual Disclosure of Potential Conflicts of Interest for 1999 and 2000, he did not disclose his continued involvement with APCOA. APCOA continued as the Airport's parking management contractor until September 9, 2000.

In addition, ACA's owner disclosed that in 1998 he had a substantial financial interest (partnership) with County vendor International Building Service Company. APCOA's invoices to the Airport showed that both International Building Service Company and a second vendor, International-Clark, were APCOA subcontractors during the time that ACA's owner was the Airport's joint venture parking management contractor (see Exhibit R). The Airport reimbursed APCOA for the subcontractors' work in the following amounts:

Year	International Building Service Company	International-Clark	Total
1994	\$120,855	\$ 42,454	\$163,309
1995	<u>4,938</u>	<u>87,842</u>	<u>92,780</u>
Total	<u>\$125,793</u>	<u>\$130,296</u>	<u>\$256,089</u>

In response to our inquiry, ACA's owner initially denied any ownership interest in either International Building Service Company or International-Clark. After confronting ACA's owner with his own County employee disclosure form that he had completed and signed, which disclosed a partnership interest with International Building Service Company, as well as the evidence of APCOA invoices paid by the Airport reimbursing for subcontracted work performed by International Building Service Company and International-Clark, ACA's owner informed us that he could not remember if he had formed such a partnership.

We determined that APCOA's Personnel Policy Guide entitled "Nepotism" prohibited the hiring of relatives of any public official, elected, appointed, or professional. Relatives included:

Spouse, children, foster children, parents, stepparents, grandparents, brothers, sisters, aunts, uncles, nieces, nephews, cousins, including relationships of the above created by law.

Thus, it was evident that APCOA violated even its own policy by employing relatives of County officials.

Request:

Please provide a detailed review and comment on the Airport's efforts to hire a different parking contractor, including but not limited to the Airport's deliberations in bidding and awarding the contract to AMPCO System Parking, and the status of removing APCOA as the parking contractor during pending litigation with the County.

Procedure:

We reviewed documentation and interviewed Airport personnel regarding the bidding and award of the contract to AMPCO System Parking and the removal of APCOA as the Airport's parking management contractor.

Comment:

In June, 1999, the Airport rebid its parking management contract, soliciting requests for proposals (RFPs) from parking contractors. In an April 26, 2000 letter to the Chairman of the Wayne County Commission (Exhibit N), the Wayne County Executive and the Wayne County Director of Purchasing indicated that four companies responded to 36 direct solicitations. The County Executive and the Director of Purchasing recommended approval of the parking management contract to AMPCO System Parking, Los Angeles, CA, as the most qualified bidder. Wayne County Commission Resolution No. 2000-448 authorized a three-year contract with AMPCO System Parking on July 27, 2000 (see Exhibit S).

When the Airport instructed APCOA to vacate the premises, APCOA filed an injunction to prevent its ouster. This injunction was denied on September 6, 2000. AMPCO System Parking officially took over the parking operations at the Airport on September 9, 2000. The pending litigation between the County and APCOA continues.

Request:

With regard to the underreported parking taxes situation described by the Wayne County Auditor General, please determine whether APCOA's legal fees incurred in resolving the issue were paid or reimbursed by the Airport.

Procedure:

We interviewed representatives from the Airport's finance division and the Wayne County Auditor General's office. We reviewed APCOA invoices for the period October 1998 through March 2000.

Comment:

The parking management contract required Wayne County to reimburse the parking management contractor for various costs and expenses, including attorney fees. Our review of APCOA invoices disclosed that the Airport had reimbursed APCOA for various attorney fees over the life of the contract but not specifically for legal fees associated with resolving the issue of underreporting of parking taxes.

Unlike the Michigan single business tax (SBT) litigation, the parking tax dispute was not litigated. The Airport's Director of Finance stated that he was not aware of any legal fees that the Airport would have been responsible for reimbursing because the parking tax issue was never litigated. The Airport took an active role in resolving the parking tax issue, pursuing an interpretation from the Michigan Department of Treasury (see pages 56 through 58 of our preliminary review report for a detailed description of the resolution of the parking tax dispute with the Michigan Department of Treasury).

The Director of Finance maintained that there had been no discussion of paying or reimbursing APCOA for any fees, legal or otherwise, that may have been associated with resolving the parking tax dispute. Our review uncovered no evidence that APCOA's legal fees (if any) associated with resolving the issue of underreporting parking taxes were paid or reimbursed by the Airport.

Request:

The preliminary review report indicates that the auditors have obtained a list of the subcontractors for the APCOA, Inc., contract that received payments from the Airport in excess of \$5,000 in any year for the years 1997 - 1999. Please determine whether the list of subcontractors provided by the Airport is complete and accurate. With respect to APCOA's subcontract with McQ Leasing, which is alleged to have overcharged the Airport by \$400,000 to \$1 million for van leases,

it has been suggested that the Airport directed APCOA to hire McQ Leasing as a subcontractor. Please describe the circumstances surrounding the selection of McQ Leasing as APCOA's subcontractor.

Procedure:

We reviewed Airport and APCOA documentation related to the list of subcontractors and to McQ Leasing. We also interviewed relevant Airport personnel and McQ Leasing's legal counsel.

Comment:

Subcontractor List

The Director of Airports stated on September 13, 2000 that the list of subcontractors for APCOA (contained in Exhibit J-2 of our preliminary review report) was provided to the Airport by APCOA upon our request and was not verified by Airport staff. To determine whether the list of subcontractors was complete and accurate, we reviewed APCOA invoices paid by the Airport and compared it to the list of subcontractors provided by APCOA.

We determined that the list of contractors was not complete. We identified subcontractors that APCOA omitted from its list of subcontractors that received payments in 1997, 1998, and/or 1999 in excess of \$5,000. The omitted subcontractors are listed in Exhibit T.

In addition, to test the accuracy of the amounts contained in the subcontractor list, we selected one subcontractor for each year presented (1997, 1998, and 1999), totaled the amount of each subcontractor's invoices that APCOA submitted to the Airport for reimbursement, and compared our results to the amounts listed in the subcontractor list.

We determined that the Airport reimbursed APCOA a total of \$113,021 for invoices submitted for reimbursement for Michigan Collision Experts in 1997. However, APCOA's subcontractor list reported that it paid only \$22,079 to Michigan Collision Experts for 1997.

We determined that the Airport reimbursed APCOA a total of \$345,348 for invoices submitted for reimbursement for Gatex, Inc., in 1998. However, APCOA's subcontractor list reported that it paid only \$112,008 to Gatex, Inc., for 1998.

We determined that the Airport reimbursed APCOA a total of \$511,142 for invoices submitted for reimbursement for Contractor Associates, Inc., in 1999. However, APCOA's subcontractor list reported that it paid only \$49,351 to Contractor Associates, Inc., for 1999.

Further examination would be necessary to ascertain the reasons for the discrepancies in the amounts that the Airport reimbursed to APCOA versus the amounts that APCOA reported that it paid to subcontractors.

McQ Leasing

APCOA alleges in a counter-complaint that the vehicle leases with McQ Leasing "were entered into at the direction, instruction and approval of Airport management in all respects."

The Wayne County Prosecutor questioned whether County officials directed APCOA to use McQ Leasing, stating:

That answer does not appear believable, since APCOA knew or should have known that no individual County employee can vary the terms of the written Management Contract which had been formally adopted by the County Commission.

In his November 6, 2000 sworn deposition, APCOA's former Parking Manager was questioned at length regarding the circumstances surrounding the selection of McQ Leasing as APCOA's subcontractor. APCOA's former Parking Manager stated that McQ Leasing (McQuiston Ford at the time) was already leasing vehicles to the Airport through APCOA when he began managing APCOA's Airport operations in 1985. APCOA's former Parking Manager also stated that he did not know whether anyone at the Airport directed anyone at APCOA that it had to use McQ Leasing.

The Airport's Director of Finance provided no information regarding the circumstances surrounding the selection of McQ Leasing as an Airport parking subcontractor, stating that McQ Leasing became a subcontractor prior to his Airport employment. The Director of Finance referred us to the Airport's Corporation Counsel for further information.

The Airport's Corporation Counsel also provided no information regarding the circumstances surrounding the selection of McQ Leasing as an Airport parking subcontractor and was unable to refer us to anyone who would know.

Representatives from APCOA's headquarters did not respond to our inquiries.

Finally, we contacted the owner of McQ Leasing for a description of the circumstances surrounding the selection of McQ Leasing (and McQuiston Ford) as APCOA's subcontractor. Through his attorney, the owner of McQ Leasing has refused to answer questions involving his Airport parking subcontracts.

Based on the lack of responses, refusals to respond, and responses lacking knowledge and information, the circumstances surrounding the selection of McQ Leasing as APCOA's subcontractor were not determinable under conventional means of inquiry. Other methods of inquiry, such as compelled testimony, may be necessary in order establish how McQ Leasing was selected as an APCOA subcontractor.

ADDITIONAL REVIEW

During the course of our review of the Airport's parking management contract, issues came to our attention that merited further examination and/or comment. We conducted additional review procedures as necessary to examine these issues. A description of the issues we examined, the procedures we employed, and the results of our review of these issues follow:

a. 401(K) Benefit Plan Reimbursements

Procedure:

We obtained information regarding 401(K) benefit plan reimbursements under the parking management contract.

Comment:

In his sworn deposition, APCOA's former Parking Manager stated that APCOA had improperly charged the Airport for 401(K) plans for employees who were not participating in the plan. The Wayne County Auditor General conducted a limited

review of the supporting documentation for APCOA's 1998 401(K) benefit plan reimbursements. Based on this review, the Wayne County Auditor General found:

- (1) APCOA charged the Airport for 401(K) plan contributions for APCOA employees who were not participating in the 401(K) plan.
- (2) APCOA charged the Airport for 401(K) plan contributions for persons who did not appear on APCOA's payroll register during the respective period of 401(K) plan reimbursement.

b. General Liability Insurance

Procedure:

We reviewed the Wayne County Auditor General's audit working papers related to the general liability quarterly insurance charges paid by the Airport to APCOA.

Comment:

The parking management contract required APCOA to indemnify, defend, and hold harmless the County from all liability for Airport parking, including all claims for personal injuries and property damage. The contract also required APCOA to obtain several insurance policies covering various aspects of this liability. The contract provided that the Airport would reimburse APCOA for insurance premiums paid for the required insurance coverage (see Exhibit U for the contract provisions pertaining to indemnification and insurance).

The Wayne County Auditor General performed an audit of the insurance charges that the Airport reimbursed to APCOA for the years 1994 through 1999. The Wayne County Auditor General plans to conclude its audit of the insurance charges pending the engagement of an insurance consultant to provide an independent analysis of what the Airport should have been charged, based on APCOA's historical loss experience at the Airport.

The Wayne County Auditor General's working papers documented that at the time of the Wayne County Auditor General's review, Airport management had not provided APCOA invoices for March 1996; September 1997; and June, July, and August 1999. As a result, one quarterly charge was missing for each of the following years: 1996, 1997, and 1999. Therefore, it was not possible to determine what the Airport actually paid to APCOA for insurance cost reimbursements.

However, based on the quarterly insurance charges of \$219,505 (for 1994 and 1995) and \$194,416 (for 1996 through 1999), the Wayne County Auditor General estimated that the Airport reimbursed APCOA \$878,018 per year for 1994 and 1995 and \$777,664 per year for 1996 through 1999 (see Exhibit V).

In his sworn deposition, APCOA's former Parking Manager described the "improper marking up [of] insurance costs," stating:

In the December '95 meeting, [APCOA's Chief Financial Officer] was there that I recall now. One of his employees . . . made a statement that they use the insurance costs as a profit center. And I took that to mean that they were doing something with the insurance, and I advised them that I wanted no part of that. Subsequently, the insurance costs were dropped. I don't recall how much.

The Wayne County Auditor General's working papers also indicated that APCOA provided the County with poor documentation as evidence for reimbursement of these insurance expenses. Specifically, from January 1994 through December 1995, the County reimbursed APCOA for insurance costs based on APCOA memorandums stating the amount incurred for insurance (see Exhibit W). No other supporting documentation was provided by APCOA.

From January 1996 through December 1999, the County requested additional information to support the insurance charges. For this period, APCOA provided the County a listing of the policies held and a total price typed on the insurance carrier's letterhead (see Exhibit X). However, there was no breakdown of costs for each type of insurance coverage or calculation to show how the cost for insurance was derived. APCOA had one insurance policy to cover all its parking operations. APCOA was to charge the County for the portion of its insurance costs attributable to its Detroit Metropolitan Wayne County Airport operations. The Wayne County Auditor General's working papers indicated that without an appropriate breakdown of costs or calculation of how insurance charges were arrived at, it would be difficult to determine whether the County reimbursed APCOA only for the Airport's fair share of APCOA's insurance costs.

As described of page 47 of our preliminary review report, in response to concerns raised in a December 9, 1998 audit by the Wayne County Auditor General, the Airport indicated that in April 1999 it assigned a department executive to monitor,

review, and approve parking contractor invoices submitted for cost reimbursement. However, it was not until January 2000 that the Airport began denying APCOA's request for insurance reimbursement and first requested additional documentation to verify the charge. The Wayne County Auditor General's working papers indicated that APCOA never provided the requested information and was not reimbursed for insurance charges thereafter.

The Wayne County Auditor General reviewed the bids submitted for the parking management contract and compared the proposed first year budgeted insurance costs contained in the bids. The working papers showed that five contractors (including APCOA) had submitted complete bids, with proposed insurance costs ranging from \$380,000 to 878,000. APCOA's bid was the highest, ranging from 5% to 131% greater than the other bidders.

The Wayne County Auditor General also surveyed other airports for the cost of on-site parking facilities' insurance costs and compared the coverage and cost of insurance to the amounts charged by APCOA. The Wayne County Auditor General's working papers showed that 6 (60%) of the 10 airports surveyed were not directly charged for insurance coverage. Insurance was the sole responsibility of the parking operator. Of the remaining 4 airports surveyed, 3 (30%) paid between \$100,000 and \$336,000 and only 1 of the 10 airports surveyed paid more for insurance coverage than the Detroit Metropolitan Wayne County Airport.

c. Red and Green Parking Lot Additions

Procedure:

We reviewed documentation regarding a loan between the Airport and APCOA used to support the construction of additions to the Airport's Red and Green Parking Lots. We interviewed employees familiar with the Red and Green Parking Lot additions and the loan agreement between the Airport and APCOA.

Comment:

During our review of APCOA invoices reimbursed by the Airport, we uncovered two loans that were made by APCOA to the Airport to fund additions to Airport property. APCOA included in its invoices for reimbursement monthly loan installment payments due to APCOA by the Airport. The Airport paid interest at prime rate plus 2%, adjusted quarterly based on a simple interest calculation.

The first loan occurred in June 1996. APCOA loaned the Airport \$306,583 to construct an addition to the Airport's Green Parking Lot. The loan amortization schedule showed that the Airport paid 10.25% from June 1996 through March 1997 and 10.50% from April 1997 through May 1998. The Airport paid a total of \$33,011 in interest according to the loan amortization schedule (see Exhibit Y). The loan amortization schedule showed that the loan was paid off in May 1998, after 24 monthly installments of \$12,773, plus interest.

The second loan occurred in May 1997. APCOA loaned the Airport \$355,000 to construct an addition to the Airport's Red Parking Lot. The loan amortization schedule (see Exhibit Z) showed that the Airport paid 10.50% for the entire duration of the loan (12 months). The Airport paid a total of \$20,191 in interest according to the loan amortization schedule. The loan amortization schedule showed that the loan was paid off in April 1998, after 12 monthly installments of \$29,583, plus interest.

Through interviews with several Airport personnel, we sought, to no avail, evidence of written loan agreements between the Airport and APCOA for the two loans. We also sought, to no avail, the identities of the contractors who performed the work on the parking lot additions, evidence of competitive bidding documentation, evidence that the construction was actually performed, and details of the monitoring and oversight of the construction by the Airport.

On February 7, 2001, we interviewed the Airport's Director of Operations, who was responsible for overseeing the parking management contract during the period of the loans. The Director of Operations stated that he had no involvement with the loans or construction of the parking lot additions and possessed no documentation regarding either matter. The Director of Operations referred us to the Airport's Director of Finance and the Airport's Corporation Counsel.

On February 7, 2001, the Airport's Director of Finance also disclaimed any knowledge or involvement regarding the loans or the parking lot additions. The Director of Finance also referred us to the Airport's Corporation Counsel.

We contacted the Airport's Corporation Counsel on February 7, 2001. We requested a copy of the loan agreements between the Airport and APCOA for the two loans. We also requested documentation of the identities of the contractors

who performed the work on the parking lot additions, as well as competitive bidding documentation.

The Airport has never provided documentation of loan agreements, the identity of the contractors who performed the work, competitive bidding documentation for the contractors who were awarded the contract, or evidence that the construction was performed. In addition, the Airport's Corporation Counsel stated:

From the records maintained there does not appear to be any evidence supporting a loan agreement between APCOA and the Airport, for the parking lot expansions of the Red and Green Lots.

The Airport's CIP program manager, the Program Managers Team, L.L.C, was not involved in the bidding, selection, or oversight of either parking lot expansion construction contract. The Airport's CIP program manager had no information regarding the construction of the Red and Green Parking Lot expansions.

According to Section 3.115 of the Wayne County Charter, the power and duty to authorize borrowing is vested with the Wayne County Commission, not with an executive branch department, such as the Airport.

Also, Section 3.116 of the Wayne County Charter states:

The Commission shall establish by ordinance the purchasing policy of the County. The ordinance shall provide for solicitation of sealed bids by advertisement for purchases over a specified amount.

Section 5 of the Wayne County Purchasing Ordinance (94-457) requires:

Except as provided in the Appropriations Ordinance, and in the Contracting Ordinance . . . the Director of Purchasing Division shall enter into the following contracts and amendments only with County Commission approval: Major contracts [defined as including construction contracts exceeding \$100,000] for goods and services

Also, Section 9 of the Wayne County Airport Ordinance (91-466) requires:

[A]ny purchase of goods and services not made through the procedures established by the County's Purchasing Director must have the express prior approval of the County Commission.

Section 2 of the Purchasing Ordinance (94-457) requires:

All purchases by the Purchasing Director shall be made in the following manner:

- (a) If the purchase entails a major expenditure [defined as including construction contracts exceeding \$100,000], the Purchasing Director shall provide for the procurement of competitive bids as follows:
 - (1) Prepare the invitation for bids . . .
 - (2) Publicize the invitation for bids by advertising for bids . . .
 - (3) Receive written bids submitted by prospective contractors.
 - (4) . . .The firm making the lowest bid [after considering any county-based firm advantage] . . .shall be deemed the lowest bidder.
 - (5) After applying any equalization percentage credit, as provided above, the contract shall be awarded to the lowest responsible bidder thus evaluated.

The Wayne County Contracting Ordinance (84-143), which delegates to the County Executive authority to approve and execute certain "routine contracts" without Commission approval, expressly does not apply to "[c]ontracts in excess of \$50,000 for construction, re-construction, renovation or other improvement of County property, property under the jurisdiction of the County or right-of-way."

The Wayne County Charter and applicable ordinances appear to have been circumvented by constructing the Red and Green Parking Lot additions to Airport property through the cost reimbursement mechanism of APCOA's parking management contract.

The Wayne County Charter and applicable ordinances also appear to have been violated by entering into two unwritten loan agreements with APCOA to finance the Red and Green Parking Lot additions.

d. Parking Lot Employees' Theft

Procedure:

We reviewed documentation regarding alleged theft of Airport parking revenue by employees of the parking management contractor. We interviewed officials from APCOA's parking management successor, AMPCO System Parking, who uncovered the alleged theft during an internal audit after taking over the parking management contract.

Comment:

With the exception of the Parking Manager position, APCOA's successor to the parking management contract agreed to retain all parking management employees. After taking over for APCOA, AMPCO System Parking conducted an internal audit of the Airport's parking operations. The internal audit uncovered an abundance of operational deficiencies and discrepancies, the most significant being discovery of a ticket manipulation scheme allegedly involving parking management employees. The employees allegedly falsified records involving validated and lost ticket transactions. The scheme resulted in the theft of Airport parking revenue.

AMPCO System Parking stated:

It is the basis of our staff, that all of these audit deficiencies have been occurring for an extended period of time.

....

[C]ashiers led us to believe that [employee theft] was a widespread occurrence that has been going on for some time.

....

Although we cannot place a dollar value on the shrinkage, we believe that these audit deficiencies were rampant on all cashier shifts.

....

[T]hese discrepancies were only able to be identified for credit card transactions and not transactions which were paid for in cash.

After the discovery of the alleged employee theft, AMPCO System Parking terminated the employees but did not report the thefts to the Wayne County Sheriff or the Airport police for investigation. However, AMPCO System Parking did notify the Airport as early as November 13, 2000 that the alleged employee thefts took place and provided the Airport a copy of the internal audit report.

The Airport did not report the alleged thefts to any law enforcement authorities until July 30, 2001, when the matter was referred directly to the Wayne County Prosecutor. We could not determine the reason why the Airport delayed reporting the allegations of employee thefts for over eight months.

The actual amount of the theft was not determinable, in part, because the Airport does not separately account for its parking revenue by its source. Upon inquiry, the Airport's Director of Finance stated that he could not provide us a detailed account of the various sources of Airport parking revenue. Without detailed revenue reports documenting the various sources of parking revenue, it would be difficult to identify the amount of parking revenue activity derived from the source of the theft (validated and lost ticket transactions).

Documenting the various sources of parking revenue is critical to maintaining an appropriate level of accountability for cash and to facilitate effective parking management. Tracking the sources of its parking revenue from the various aspects of its parking operations would enable the Airport to evaluate the efficiency of its lot space (e.g., short-term parking versus long-term parking), maximize its parking revenue, enhance customer service and convenience, and discourage parking revenue loss or theft.

For example, accounting for the amount of parking revenue derived from towed automobiles is not possible because a detailed accounting of the revenue derived from this activity is not maintained. The Airport stated that the parking management contractor pays (and the Airport reimburses) parking subcontractors, such as Western Towing, Inc., to remove automobiles illegally parked in Airport parking lots.

The Airport denied that illegally parked automobiles have ever been towed to or charged by lots owned or managed by towing companies, such as Western Towing, Inc. The Airport stated that illegally parked automobiles are towed to lots managed by the Airport's parking management contractor, on Airport property,

where customers pay the Airport's parking management contractor to retrieve their automobiles. These payments are not accounted for separately from Airport parking revenue.

Without a separate accounting of the parking revenue derived from towed automobiles, the Airport has been unable to monitor its revenue derived from this source or even determine if all revenue was received and recorded.

Airport Response:

On August 28, 2001, we provided the Airport with a draft copy of this report. We requested that the Airport provide any response to this report by September 4, 2001. The Airport subsequently informed us that it would require more time to complete its response, stating that its response would be submitted by September 10, 2001.

On September 7, 2001, the Airport informed us that several Airport personnel involved in the Airport's response would be attending an Airports Council International event occurring September 9 through 12, 2001. Airport personnel's attendance at this event demanded that more time be allowed for the Airport to complete its response. The Airport stated that its response would be provided by September 14, 2001.

On September 14, 2001, the Airport informed us that it would require more time to complete its response, stating that its response would be submitted by September 21, 2001. As of the date of this report, the Airport has not provided its response.